

# Three Keys to a Successful Workout

BY PAT DIERCKS AND JOE MARCHESE

*Given the relatively low levels of outstanding loan balances and the macro-economic environment over the past couple of years, the number of borrowers/loans that have ended up going into 'workout' have been few and far between. PKF Clear Thinking executives provide details on what is needed for a workout to succeed for both lender and borrower.*



respective of whether we are in a recession or not, there is almost no debate in our industry that borrowers currently have greater levels of outstandings. Consumer spending is shifting/decreasing, and there is a growing consensus that lenders are going to have to take a harder look at their borrowers and their near-term performance. With higher outstandings and a more challenging business environment, there is a lot less room for error than there

has been over the last two years. It is very likely that we start to see an increasing number of deals that will end up in workout. Not to say that every deal that ends up in workout will be easily turned in the right direction, but there are a few things that the secured lender should keep in mind to hopefully make a difficult process less so.

### Expertise

As with anything, there are exceptions, but, for the most part, we find that lenders pride themselves on not having lots of deals in workout. That being the case, the number of internal resources with lots of workout experience available is quite small, even to the largest of shops. This is especially true over the last couple of years, where many folks who had workout experience are no longer serving in that capacity as workouts in general have declined significantly since the end of 2020. And while there are still some very experienced workout folks employed in the lending community, quite commonly they are being pulled in many different directions and simply cannot provide the amount of attention and focus that is needed to ensure a smooth and successful process. Hiring a dedicated professional that not only can be involved in the day-to-day needs of both the lender and borrower, but who also likely carries with them decades of experience in successful workouts, is something that should be seriously considered. Not only does the third-party professional bring significant expertise/experience in dealing with workout situations, but they also bring an unbiased opinion as to the issues at hand and can quickly and clearly identify the best path forward.

With almost two decades of helping clients and their lenders through some pretty difficult situations, we can honestly say that, while no two situations are the same, they do follow certain patterns and themes (especially in a given economic cycle). Understanding the patterns and leveraging the lessons learned from each successive client, successful turnaround professionals can fine tune their approach and methodology to each unique situation and can bring a great wealth of possible successful strategies to bear. Turnaround professionals also bring strong existing professional relationships that can be utilized to access additional/supplemental capital, assist with asset disposition, real estate services, and brand/asset valuation services.

By leveraging the experience, industry knowledge, and other resources, a customized strategy can be put together that considers all the strengths and opportunities that a given borrower possesses, and then over time works toward a solution that gets both parties back on solid footing. Whether it is liquidating ineligible inventory, cutting expenses, or negotiating with vendors for better terms,

having someone involved who has successfully employed these strategies (and many others) not only allows for a better outcome, but one that likely occurs much more quickly.

### Patience

While there are many obstacles that will need to be navigated during the workout process, in our experience, one of the greatest challenges to any successful workout process is a limited amount of time. Unfortunately, in the real-world, borrower and lender are rarely in the position where they have all of the time that they would want to be able to effectuate the level of change necessary for a successful workout. There are many pressures, both internal and external, when it comes to determining just how much time a borrower should be given to effectuate their workout. As a turnaround professional, you will rarely hear us say that a borrower has been given too much time to improve their position. That being said, providing too much time, paired with too few parameters/guard rails on the process, can certainly put the lender and borrower in a worse position.

One of the biggest reasons outside professionals are often brought in to assist with workouts is that they are usually noted for the speed in which they can understand and address difficult situations. The reason outside professionals are able to move quickly is actually somewhat counterintuitive, in that we are able to slow things down and create time to come up with a plan and be able to execute. So many times, when we are brought into a situation, the borrower and lender are facing many challenges, which are almost impossible to address all at once. As the old saying goes 'when eating an elephant, take one bite at a time'. Which is why there needs to be a plan in place that prioritizes and addresses the most impactful issues as quickly as possible, and then addresses the less impactful items as appropriate. We find that this is a good way to move quickly while creating the time necessary to address all the issues at hand. This is where having a great deal of patience



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will ultimately pay off because the more time there is to understand and address the issues at hand, the more likely the outcome will be successful.

### Trust

Clear and concise communication, and a certain level of trust are all requirements for successful outcomes. So many times, when we are brought into a situation, both lender and borrower have become “fatigued” with one another and there are likely some perceived biases/issues that can hinder a successful process. As turnaround professionals, one of our first orders of business is to start to build a level of trust between all constituents involved.

One of the easier ways to build trust is to approach the situation as a partnership. In order for the workout to be successful, all the constituents (lenders, ownership, management team, etc.) need to be on the same page and working towards a common goal. For whatever reason, in many of the challenging situations that we are involved in, both borrower and lender tend to take a very guarded approach with one another, and communication is on an as-needed basis. Our approach in these situations is to schedule regular update calls and provide as much relevant information as we possibly can. That way, any issues are being addressed on a proactive basis and there is no reason for knee-jerk sorts of reactions when something comes up unexpectedly.

If lender and borrower cannot get to a place of trust between them, the likelihood of a successful workout process is much lower, which is why in our role as advisors, we typically serve as the central point of communication. This works well in a couple of ways. First, given the experience and expertise of turnaround professionals, we understand where each party is coming from, what they really need out of a given situation, and can help bridge any gaps in expectations. Second, we are then able to set appropriate expectations, and ensure execution. One of the most common challenges we see between lender and borrower is that expectations

were set very high and ultimately the borrower was not able to execute. By stepping back and setting expectations at reasonable levels (under promise), and then day-in and day-out executing to those levels or beyond (over deliver), a level of trust starts to grow which allows the process to move along much more quickly and successfully. 

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